# Headquarters U.S. Air Force

***Integrity - Service - Excellence***

# Source Selection Training

# Cost/Price Planning Module

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# Overview

- Learning Objectives
- Cost/Price Terminology
- Rules of the Road
- Source Selection Cost/Price Planning - 4 Steps
- Cost/Price Analysts Role in Source Selection
- Summary

# Learning Objectives

1. Become familiar with standardized cost/price terminology

2. Be able to determine the appropriate level and type of cost/price information for your source selection

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# Cost / Price Terminology

**Cost / Price: Term used to denote cost or price in a negotiated source selection**

- **Cost includes all elements of cost**
- **Price includes all elements of cost plus profit or fee as appropriate**

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# Terms (cont'd)

- **Contract price:**
  **The price of the contract (cost plus profit or fee)**

- **Cost to the government:**
  **An amount paid by the government, which may include contract price and other related costs**
  - **Simplest case: contract price and cost to the government are identical**
  - **Complex case: contract price is relatively small part of cost to the government (e.g., life cycle cost)**

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# Terms (cont'd)

- **Total Evaluated Price:**

  **The Government's calculation, based on details spelled out in Section M of the RFP, that will be provided to the Source Selection Authority (SSA)**

- **Most Probable Cost:**
  - **Most probable cost is determined by adjusting each offeror's proposed cost to reflect any adjustments to cost elements to realistic levels based on the results of the cost realism analysis**
  - **Most probable cost is used for the purposes of evaluation to determine the best value**

- **Most Probable Cost (MPC)**
  - **MPC estimates is the government estimate of the costs to acquire specified goods and/or services. (MP5315.3, paragraph 4.4.1.4.1)**
    - Includes costs that will be included as part of the contract
    - May include any other costs that will be incurred by the government in performance of the acquisition program
    - For ACAT 1 programs, the MPC must include an analysis of the uncertainties inherent in acquisition
      - From those related to the Cost estimating methods chosen
      - To those associated with the technical and programmatic assumptions of the program

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# Terms (cont'd)

- **Cost/Price Risk Factor**
  - **Cost/Price Risk rating assesses the degree to which an offeror's cost proposal compares with the Government's best estimates of the offeror's Most Probable Costs (MPC)**
  - **Shall be used for Acquisition Category (ACAT), System Development and Demonstration (SDD) phase programs that use a Cost Reimbursement or Fixed-Price Incentive type contract structure.**

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# Terms (cont'd)

**Information Other than Cost or Pricing Data:**
**Is any type of information required to determine price reasonableness or cost realism, that does not require offeror certification as accurate, complete, and current in accordance with FAR 15.406-2**

- **May include pricing, sales, or cost information**
- **Includes cost or pricing data for which certification is determined inapplicable after submission**

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# Terms (cont'd)

**Cost/Price Evaluation:**
**Assessment of offeror's proposed prices and additional costs (if disclosed in the RFP) to determine:**

- **Reasonableness**
- **Cost realism**
- **Unbalanced pricing**

# Terms (cont'd)

## Reasonableness

- Policy set forth in FAR 15.402(a)—Contracting officers must purchase supplies and services from responsible sources at fair and reasonable prices.
- No FAR definition of reasonable
  - Business IPT definition: "For a price to be reasonable, it must represent a price to the government that a prudent person would pay when consideration is given to prices in the market"
- Normally, competition establishes price reasonableness
  - FFP or FFP w/EPA, comparison of proposed prices usually satisfies requirement to perform a price analysis, and cost analysis need not be performed (FAR 15.305(a)(1)).
- Cost analysis may also be used to evaluate information other than cost or pricing data to

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# Terms (cont'd)

## Cost Realism

**Cost realism means that the costs in an offeror's proposal—**

- **Are realistic for the work to be performed;**
- **Reflect a clear understanding of the requirements; and**
- **Are consistent with the unique methods of performance and materials described in the offeror's technical proposal**

# Terms (cont'd)

**Unbalanced Pricing (FAR 15.404-1(g))**

- **Exists when, despite an acceptable total evaluated price, the price of one or more contract line items is significantly over or understated**
- **May increases performance risk**
- **Could result in payment of unreasonably high prices**
- **Requires price or cost analysis**
- **Could result in rejection of an offer if risk to the government is unacceptable**

# Terms (cont'd)

## Price Analysis

- **Definition: Process of examining and evaluating a proposed price without evaluating the individual elements of cost elements and proposed profit. FAR 15.404-1(b)(1)**
- **Price Analysis Techniques**
  - **Comparison of proposed prices received to**
    - Each other (adequate price competition)*
    - Historical contract prices*
    - Price lists
    - Independent Government cost estimates
    - Prices obtained through market research
    - Parametric estimating models
  - **Analysis of pricing info provided by offerors**

***Preferred techniques per FAR 15.404-1(b)(3)**

# Terms (cont'd)

**Adequate Price Competition (APC) FAR 15.403-1(c)(1)**

**A price**

- **Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's requirement and if**
  - **Best value source selection where price is a substantial factor**
  - **There is no finding the price of the otherwise successful offeror is unreasonable**
- **There was a reasonable expectation, based on market research or other assessment, that two or more independent, responsible offerors would submit priced offers even though only one is received and**
  - **The CO can conclude the offer was submitted with the expectation of competition**
  - **Reasonable determination that proposed price is based on APC and approved at a level above the CO**
- **Price analysis demonstrates reasonableness**

# Terms (cont'd)

## Cost Analysis

- **Definition: The review and evaluation of individual elements of cost and profit in an offeror's proposal and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be assuming reasonable economy and efficiency (FAR 15.404-1(c)(1)).**
- **Various Cost Analysis Techniques:**
  - **Verification of cost or pricing data and evaluation of cost elements**
  - **Evaluating the effect of offeror's current practices on future costs.**
  - **Comparison of costs proposed for individual cost elements with**
    - Actual costs previously incurred by same offeror
    - Previous cost estimates and other cost estimates
    - Independent Government cost estimates by technical personnel

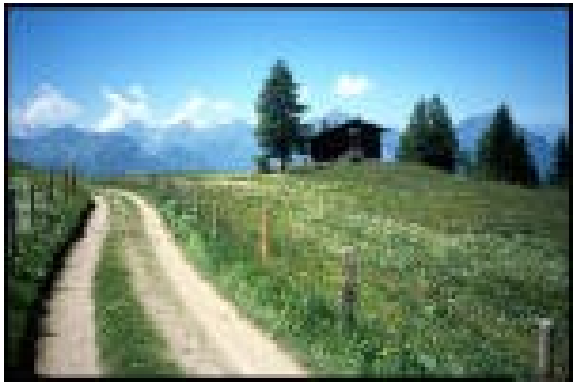
# Terms (cont'd)

## Cost Realism Analysis

**Definition: The process of independently reviewing and evaluating specific elements of each offeror's proposed cost estimate to determine whether the estimated proposed cost elements:**

- **Are realistic for the work to be performed;**
- **Reflect a clear understanding of the requirements; and,**
- **Are consistent with the unique methods of performance and materials described in the offeror's technical proposal**
- **FAR 15.404-1(d)(1)**

# "Rules of the Road"



- What to Submit
  - Section L
- How Government will Evaluate Cost
  - Section M
- Perform the Evaluation
  - Source Selection Evaluation
- How they Did
  - Debriefing

# Cost/Price Planning Process

4 Steps!

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# 4 Steps

- **Step 1 – Determine Importance of the Cost/Price Factor relative to other evaluation factors**
- **Step 2 – Determine Cost/Price Evaluation Criteria and Methodology**
- **Step 3 – Determine Content of the Cost/Price Evaluation**
- **Step 4 – Determine Data You Will Need**

# Step 1
# Importance of Cost/Price Factor

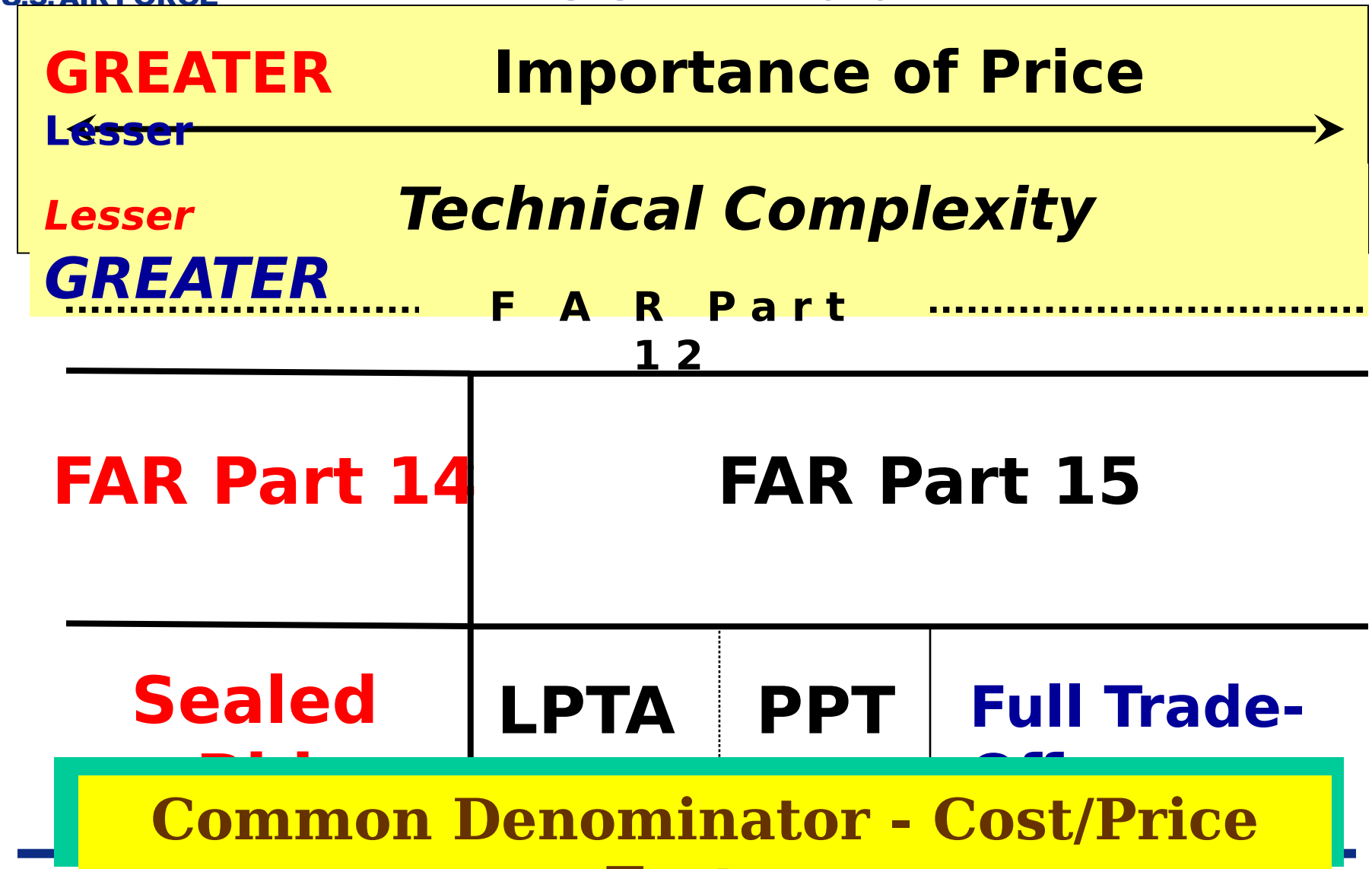
- **Common to all source selections**
- **Mandatory evaluation factor**
- **RFP must disclose importance of price relative to other factors**

# Step 1
# Importance of Cost/Price Factor

**Determine where you fit in the best value continuum based on:**

- **Market research**
- **Risk**
- **Contract type**
- **Importance of:**
  - **Proposed technical solution**
  - **Cost/price**

# The Best Value Continuum




**Common Denominator - Cost/Price Factor**

# Step 1
# Importance of Cost/Price Factor

## Performance Price Trade-off (PPT)

- **Determine the Ranking and Relative Importance of Cost/Price Factor Between the following Evaluation Factors**
  - **Past Performance**
  - **Cost/Price**
  - **Cost/Price Risk (if applicable)**

- **SSA Approves Ranking**

**Cost/price must contribute substantially to decision**

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# Step 1
# Importance of Cost/Price Factor

**Full Trade-Off Source Selections**

- **Determine the Ranking and Relative Importance of Cost/Price Factor Among the Chosen Evaluation Factors**
  - **Mission Capability**
  - **Past Performance**
  - **Cost/Price**
  - **Cost/Price Risk (if applicable)**

- **SSA Approves Ranking**

**Cost/price must contribute substantially to decision**

# Step 2 – Cost/Price Evaluation Criteria and Methodology

## Fixed-Price Contracts

- **Section M Criteria**
  - **Reasonableness (including balanced prices)**
- **Section M Evaluation Methodology**
  - **Price Analysis**
  - **Cost Realism Analysis may be used on competitive fixed-price incentive contracts or, in exceptional cases, on competitive fixed-price-type contracts when**
    - New requirements may not be fully understood by offerors
    - There are quality concerns
    - Past experience indicates that contractors proposed costs have resulted in quality or service shortfalls

# Step 2 – Cost/Price Evaluation Criteria and Methodology

## Cost Reimbursable

- **Section M criteria**
  - **Reasonableness (including balanced prices)**
  - **Cost realism**
- **Section M Evaluation methodology**
  - **Cost realism analysis**
    - Shall be performed on Cost-Reimbursement contracts to determine Probable Cost of performance
    - Cost/Price Risk assessment (if applicable)
    - May be used on competitive fixed price in certain cases
  - **Price analysis**

# Step 3--Content of the Cost/Price Evaluation

**Cost/Price Evaluation is driven by contract type**

**FFP Contracts (Far Part 12 or 15)**

- **Content to be evaluated may include:**
  - **CLIN prices**
  - **Fixed Rates**
  - **Other Government Costs (OGCs), such as GFP, cost of contract financing, risk etc.**
- **Appropriate Terms**
  - **Evaluated Contract Price = CLIN prices added up**
  - **Total Government Cost = CLIN prices + OGC**

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# Step 3
# Content of the Cost/Price Evaluation

## Cost Reimbursable Contracts

- **Content to be evaluated may include:**
  - **Contract Cost Elements**
  - **Rates**
  - **OGCs**
  - **Risk (may result from technical, schedule, cost)**
  - **Life Cycle Cost (organic support, ICS, CLS, Military construction, disposal/demilitarization)**
- **Appropriate Terms**
  - **Most Probable Cost**
  - **Cost/Price Risk Rating (if applicable)**
- **Specify formula in Section M**

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# Step 3
# Content of the Cost/Price Evaluation

- **Indefinite Quantity (IQ) Contracts**
  - **Indefinite Delivery (ID) IQ most common**
  - **Content to be evaluated may include:**
    - CLINs
    - Sample tasks
    - Fixed rates, Best Estimated Quantity (BEQ)
    - OGCs, such as GFP, cost of contract financing, risk
  - **Appropriate Terms**
    - Evaluated price = fixed rates x BEQ
    - Total government cost = (Fixed Rates x BEQ) + OGC (may also include CLINs)
    - Specify formula in Section M

# Step 4
# Cost Information Needed

- **Determine what cost information will be required to perform the Section M cost/price evaluation**

- **Sources of information may include:**
  - **Offerors (requested in Section L)**
    - Contract Type drives the cost information you may request from offerors
  - **Other Government Agencies, such as DCAA, DCMA, Other Services, NASA, etc.**
  - **Market Research**
  - **Program Office**
  - **Independent Government Estimate (IGE)**

# Step 4
# Cost Information Needed

## FFP/IDIQ Contracts

- **Offeror Information (Section L):**
  - **CLIN prices**
  - **Loaded Labor Rates (e.g. T&M, IDIQ)**
  - **Pricing matrices (e.g., IDIQ)**
  - **Prices of GFP (acquisition cost to offerors)**
  - **Financing terms**
  - **Economic Price Adjustment terms**

- **"Other than cost or pricing data" requires approval from SAF/AQC (AFFARs 5315.402(a))**
- **If CO determines there isn't adequate price competition, "cost or pricing data" may be required (15.403)**

# Step 4
# Cost Information Needed

**Cost Reimbursable Contracts**

**Offeror Information (Section L):**

- **All contract costs by cost element**
- **Labor rates & applicable burdens**
- **Subcontract Proposal Evaluation, if >$650k**
- **Subcontract Proposal, if >$11.5M or 10% of contract value**
- **Status of Contractor Accounting System**
- **Parametric model info**
- **Reliability & Maintainability data (e.g. failure rates, repair data)**

# Step 4
# Cost Information Needed

**Cost Reimbursable Contracts**

**Offeror Information (Section L):**

- **Offeror shall provide an analysis of uncertainty as part of the cost/price volume if the Cost/Price factor utilizes the MPC estimating process for an ACAT I program**
  - **Cost uncertainty analysis will be conducted that allows a range (or distribution) of possible costs developed based on statistical techniques**
  - **Cost uncertainty analysis will quantify this uncertainty caused by the variance in cost estimating methods, as well as uncertainty in the technical, schedule, performance and programmatic inputs**
  - **The application of various statistical techniques, inherent in uncertainty analysis will result in a mathematically correct MPC, a level of confidence, and the confidence levels for all other costs**
  - **Offerors shall refer to and use the "Air Force Cost and Risk Uncertainty Handbook" as a guide when preparing this analysis**

# Step 4
# Cost Information Needed

**Cost/Price Information from other sources**

- Contract Price history
- Program cost/sales histories
- Wage determinations
- Technical reports
- Market prices for same/similar items
- OGC information, e.g. facilities, range support, etc.
- Forward Pricing Rate Agreements/Recommendations
- Program office estimate (Budget)
- O&S Data
  - Concept of Operations (CONOPS )
  - Maintenance Concept (ICS, CLS, Organic, Mix)
  - Organic Personnel Requirements
  - # years of ramp-up, steady state
- Published Price Indices
- Catalog prices/Price lists
- Parametric models

# Cost/Price Analyst's Role in Source Selection

- **Acquisition Planning Phase:**
  - **Provide Program Support/Advice**
  - **Assist Teams with Cost/Price Evaluation Approach**
  - **Participate in pre-solicitation exchanges with Industry or Potential Offerors on Most-Probable-Cost Analysis (for ACAT programs when applicable)**
- **ASP Briefing:**
  - **Cost/Price Evaluation Approach Presented**
  - **OPR Identified for Cost/Price Support**
- **Source Selection Phase:**
  - **Provide Cost/Price Support and Analysis as Required**

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# Summary

- Cost/Price Terminology
- Rules of the Road
- 4 Steps for Cost/Price Planning
  - Determine importance of Cost/Price factor relative to other evaluation factors
  - Determine Cost/Price Evaluation Criteria and Methodology
  - Determine the content of the Cost/Price Evaluation
  - Determine what data you will need
- Cost/Price Analysts Role in Supporting Source Selection